## Solution 5.1

The case in this question is therefore possible if the provisional payments during the year exceeded the final tax calculated, resulting in a debtor being raised on the statement of financial position, while at the same time the tax authority assessed the taxation due as being greater than that calculated and provided by the company, resulting in an under-provision. This under-provision will now have to be paid in the current year (i.e. the year in which the tax assessment is received). The accounting entry will have to be a debit to taxation in the statement of comprehensive income and a credit to bank or creditors.

## Solution 5.2

### (a) Ledger accounts

**CURRENT TAX PAYABLE/ RECEIVABLE**

| | | | | | |
|---|---|---|---|---|---|
| **20X1** | | **C** | **20X1** | | **C** |
| 30 June | Bank | 26 000 | 31 Dec | Taxation | 56 000 |
| 31 Dec | Bank | 28 000 | | | |
| 31 Dec | Balance | 2 000 | | | |
| | | 56 000 | | | 56 000 |
| **20X2** | | | **20X2** | | |
| 16 May | Bank (underpayment) | 2 000 | 1 Jan | Balance [1] | 2 000 |
| 30 June | Bank | 29 000 | 31 Dec | Taxation | 58 000 |
| 31 Dec | Bank | 30 000 | 31 Dec | Balance | 1 000 |
| | | 61 000 | | | 61 000 |
| **20X3** | | | **20X3** | | |
| 1 Jan | Balance [2] | 1 000 | 19 May | Taxation (under-prov) | 1 500 |
| 19 June | Bank (underpayment) | 500 | | | |
| 30 June | Bank | 31 000 | 31 Dec | Taxation | 65 000 |
| 31 Dec | Bank | 31 500 | | | |
| 31 Dec | Balance | 2 500 | | | |
| | | 66 500 | | | 66 500 |
| **20X4** | | | **20X4** | | |
| 18 April | Taxation (over-prov) | 200 | 1 Jan | Balance [3] | 2 500 |
| 18 May | Bank (underpayment) | 2 300 | | | |
| 30 June | Bank | 33 000 | 31 Dec | Taxation | 67 400 |
| 31 Dec | Bank | 34 000 | | | |
| 31 Dec | Balance | 400 | | | |
| | | 69 900 | | | 69 900 |
| | | | **20X5** | | |
| | | | 1 Jan | Balance [4] | 400 |

**TAXATION EXPENSE**

| | | | | | |
|---|---|---|---|---|---|
| **20X1** | | **C** | **20X1** | | **C** |
| 31 Dec | Current tax payable | 56 000 | 31 Dec | Retained earnings | 56 000 |
| **20X2** | | | **20X2** | | |
| 31 Dec | Current tax payable | 58 000 | 31 Dec | Retained earnings | 58 000 |
| **20X3** | | | **20X3** | | |
| 19 May | Current tax payable | 1 500 | 31 Dec | Retained earnings | 66 500 |
| 31 Dec | Current tax payable | 65 000 | | | |
| | | 66 500 | | | 66 500 |
| **20X4** | | | **20X4** | | |
| 31 Dec | Current tax payable | 67 400 | 18 April | Current tax payable | 200 |
| | | | 31 Dec | Retained earnings | 67 200 |
| | | 67 400 | | | 67 400 |

| **Balance at** | **01/01/X2 [1]** | **01/01/X3 [2]** | **01/01/X4 [3]** | **01/01/X5 [4]** |
|---|---|---|---|---|
| Provide | 56 000 | 58 000 | 65 000 | 67 400 |
| Pay | 54 000 | 59 000 | 62 500 | 67 000 |
| | 2 000 | (1 000) | 2 500 | 400 |

## Solution 5.2 continued..

### (b) Disclosure in the annual financial statements

**MISTY RIDGE LIMITED**
**STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 20X1**

| | Note | 20X4 C | 20X3 C | 20X2 C | 20X1 C |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Current tax payable | | 400 | 2 500 | 0 | 2 000 |
| **Current assets** | | | | | |
| Current tax receivable | | 0 | 0 | 1 000 | 0 |

**MISTY RIDGE LIMITED**
**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 20X4**

| | Note | 20X4 C | 20X3 C | 20X2 C | 20X1 C |
|---|---|---|---|---|---|
| Income tax expense | 14 | 67 200 | 66 500 | 58 000 | 56 000 |

**MISTY RIDGE LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 20X4**

| | 20X4 C | 20X3 C | 20X2 C | 20X1 C |
|---|---|---|---|---|
| **14 Taxation** | | | | |
| Normal tax | | | | |
| Current tax | | | | |
| - for the current year | 67 400 | 65 000 | 58 000 | 56 000 |
| - under/ (over)-provision in a prior year | (200) | 1 500 | 0 | 0 |
| Income tax expense | 67 200 | 66 500 | 58 000 | 56 000 |

## Solution 5.2 continued..

### Workings

| | 20X1 | 20X2 | 20X3 | 20X4 |
|---|---|---|---|---|
| Assessment | 56 000 | 59 500 | 64 800 | |
| Provided | 56 000 | 58 000 | 65 000 | |
| Under/(over) provision | - | 1 500 | (200) | |
| | | | | |
| Assessment | 56 000 | 59 500 | 64 800 | |
| Total payments | 54 000 | 59 000 | 62 500 | |
| Amount owing | 2 000 | 500 | 2 300 | |
| | | | | |
| Provided | 56 000 | 58 000 | 65 000 | 67 400 |
| Total payments | 54 000 | 59 000 | 62 500 | 67 000 |
| Statement of financial position liability (asset) | 2 000 | (1 000) | 2 500 | 400 |

## Solution 5.3

### Part A

a) First provisional payment: (C40 000 x 30%)/2 = C6 000

b) Second provisional payment: C50 000 x 30% - C6 000 = C9 000

c) Tax expense in SOCI: C40 000 x 30% = C12 000

d) Closing balance in the Current tax payable account:
C0 + C12 000 (credit) – C6 000 (debit) – C9 000 (debit) = C3 000 (debit –current asset)

e) Underprovision of tax expense in 20X9: *[tax per assessment – tax expense provided for]:*
C14 000 – C12 000 = C2 000 (underprovision)

f) Refund owing by the tax authorities: *[tax per assessment – total payments made to the tax authorities]:*
C14 000 – C6 000 – C9 000 = C1 000 (refund)

### Workings

| Current tax payable | | | |
|---|---|---|---|
| **Description** | **C** | **Description** | **C** |
| Bank | 6 000 | Tax expense | 12 000 |
| Bank | 9 000 | | |
| | | Balance | 3 000 |
| | 15 000 | | 15 000 |
| Balance | 3 000 | Tax expense | 2 000 |
| | | Balance | 1 000 |
| | 1 000 | | 3 000 |

| | C | C |
|---|---|---|
| Assessment | 14 000 | 14 000 |
| Provided / provisional payments | 12 000 | 15 000 |
| Under / (over) provision / amount owing by / (to) us | 2 000 | (1 000) |

## Solution 5.3 continued…

### Part B

a) First provisional payment: (C40 000 x 30%)/ 2 = C6 000

b) Second provisional payment: C30 000 x 30% - C6 000 = C3 000

c) Tax expense in SOCI: C40 000 x 30% = C12 000

d) Closing balance in the current tax payable account:
C0 + C12 000 (credit) – C6 000 (debit) – C3 000 (debit) = C3 000 (cr: current liability)

e) Underprovision of tax expense in 20X9: *[tax per assessment – tax expense provided for]*
C14 000 – C12 000 = C2 000 (underprovision)

f) Amount owing to the tax authorities: *[tax per assessment – total payments made to the tax authorities]*
C14 000 – C6 000 – C3 000 = C5 000

### Workings

| Current tax payable | | | |
|---|---|---|---|
| ***Description*** | ***C*** | ***Description*** | ***C*** |
| Bank | 6 000 | Tax expense | 12 000 |
| Bank | 3 000 | | |
| Balance | 3 000 | | |
| | 12 000 | | 12 000 |
| | | Balance | 3 000 |
| Balance | 5 000 | Tax expense | 2 000 |
| | 5 000 | Balance | 5 000 |

| | C | C |
|---|---|---|
| Assessment | 14 000 | 14 000 |
| Provided / provisional payments | 12 000 | 9 000 |
| Under / (over) provision / amount owing by / (to) us | 2 000 | 5 000 |

## Solution 5.3 continued…

### Part C

a) First provisional payment: (C40 000 x 30%) / 2 = C6 000

b) Second provisional payment: C15 000 x 30% - C6 000 = C0 (not required because the total payment required is C4 500 and there is already an overpayment of C1 500)

c) Tax expense in SOCI: C40 000 x 30% = C12 000

d) Closing balance in the current tax payable account:
C0 + C12 000 (credit) – C6 000 (debit) – C0 = C6 000 (credit: current liability)

e) Overprovision of tax expense in 20X9: *[tax per assessment – tax expense provided for]*
C10 000 – C12 000 = C2 000 (overprovision)

f) Amount owing to the tax authorities: *[tax per assessment – total payments made to the tax authorities]*
C10 000 – C6 000 – C0 = C4 000

### Workings

| Current tax payable | | | |
|---|---|---|---|
| ***Description*** | ***C*** | ***Description*** | ***C*** |
| Bank | 6 000 | Tax expense | 12 000 |
| Balance | 6 000 | | |
| | 12 000 | | 12 000 |
| Tax expense | 2 000 | Balance | 6 000 |
| Balance | 4 000 | | |
| | 6 000 | | 6 000 |
| | | Balance | 4 000 |

| | C | C |
|---|---|---|
| Assessment | 10 000 | 10 000 |
| Provided / provisional payments | 12 000 | 6 000 |
| Under / (over) provision / amount owing by / (to) us | (2 000) | 4 000 |

## Solution 5.4

Please note that the journals and the t-accounts have been interspersed to assist you in your understanding. Under test and exams conditions it would be more time efficient to show all the journal entries followed by the T-accounts.

### 20X6 FINANCIAL YEAR

### Journal entries

| | Debit | Credit |
|---|---|---|
| Current tax payable | 4 000 | |
| Bank | | 4 000 |
| *Provisional tax payments in 20X6 in respect of 20X6 assessment* | | |
| | | |
| Income tax expense (statement of comprehensive income) | 4 200 | |
| Current tax payable | | 4 200 |
| *Estimated income tax expense for the year* | | |

### Ledger -accounts

**Bank**

| | | | |
|---|---|---|---|
| | | Current tax payable | 4 000 |

**Current tax payable (L)**

| | | | |
|---|---|---|---|
| Bank | 4 000 | Income tax expense | 4 200 |
| Balance (c/d) | 200 | | |
| | 4 200 | | 4 200 |
| | | Balance (b/d) | 200 |

**Income tax (e)**

| | | | |
|---|---|---|---|
| Current tax payable | 4 200 | Profit and loss | 4 200 |

### Financial statements

**WAK LIMITED**
**EXTRACT FROM STATEMENT OF FINANCIAL POSITION**
**AS AT 28 FEBRUARY 20X6**

| | 20X6 C |
|---|---|
| ***EQUITY AND LIABILITIES*** | |
| **Current liabilities** | |
| Current tax payable | 200 |

**WAK LIMITED**
**EXTRACT FROM STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 28 FEBRUARY 20X6**

| | 20X6 C |
|---|---|
| Profit before tax | 12 000 |
| Income tax expense | (4 200) |
| Profit for the period | 7 800 |
| *Other comprehensive income* | - |
| Total comprehensive income | 7 800 |

## Solution 5.4 continued….

### 20X7 FINANCIAL YEAR

**Journal entries**: *First step – deal with the 20X6 assessment*

| | Debit | Credit |
|---|---|---|
| Income tax expense | 400 | |
| Current tax payable | | 400 |
| *Underprovision of 20X6 taxation expense* | | |
| | | |
| Current tax payable | 600 | |
| Bank | | 600 |
| *Payment with return made in respect of overpayment in 20X6* | | |

**Journals**: *Second step – current year entries*

| | | |
|---|---|---|
| Current tax payable | 5 000 | |
| Bank | | 5 000 |
| *Total of the first and second provisional payments made in 20X7 (these two payments would normally be processed as two separate entries on the dates on which the payments were actually made)* | | |
| | | |
| Income tax expense | 5 320 | |
| Current tax payable | | 5 320 |
| *Estimated income tax expense for the year* | | |

**Ledger-accounts:**

**Bank**

| | | | |
|---|---|---|---|
| | | Current tax payable | 600 |
| | | Current tax payable | 5 000 |

**Current tax payable**

| | | | |
|---|---|---|---|
| Bank | 600 | Balance (1/1/20X7) | 200 |
| Bank | 5 000 | Tax (underprovision – 20X6) | 400 |
| Balance | 320 | Tax expense | 5 320 |
| | 5 920 | | 5 920 |
| | | | |
| | | Balance | 320 |

**Income tax expense**

| | | | |
|---|---|---|---|
| Current tax payable | 400 | Profit and loss | 5 720 |
| Current tax payable | 5 320 | | |
| | 5 720 | | 5 720 |

## Solution 5.4 continued….

### Financial statements

**WAK LIMITED**
**EXTRACT FROM STATEMENT OF FINANCIAL POSITION**
**AS AT 28 FEBRUARY 20X7**

| | 20X7 C | 20X6 C |
|---|---|---|
| **Current liabilities** | | |
| Current tax payable | 320 | 200 |

**WAK LIMITED**
**EXTRACTS FROM STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 28 FEBRUARY 20X7**

| | Note | 20X7 C | 20X6 C |
|---|---|---|---|
| Profit before tax | | 15 200 | 12 000 |
| Income tax expense | 3 | (5 720) | (4 200) |
| Profit for the period | | 9 480 | 7 800 |
| *Other comprehensive income* | | - | - |
| Total comprehensive income | | 9 480 | 7 800 |

**WAK LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 28 FEBRUARY 20X7**

| **3. Taxation** | 20X7 C | 20X6 C |
|---|---|---|
| Normal tax | | |
| Current tax | 5 720 | 4 200 |
| Current tax | 5 320 | 4 200 |
| Under provision in a previous year | 400 | - |
| Deferred | - | - |
| | 5 720 | 4 200 |
| *Tax rate reconciliation* | | |
| Applicable tax rate | 35% | 35% |
| Tax effects of profit before tax | 5 320 | 4 200 |
| Underprovision of current tax in a prior year | 400 | - |
| Income tax expense | 5 720 | 4 200 |
| Effective tax rate | 37.6% | 35% |

The effective tax rate is higher than the applicable tax rate due to:

- the under-provision of tax in the prior year.

## Solution 5.4 continued….

### 20X8 FINANCIAL YEAR

| | Debit | Credit |
|---|---|---|
| Current tax payable | 495 | |
| Income tax expense | | 495 |
| *Overprovision of 20X7 taxation expense* | | |
| Bank | 175 | |
| Current tax payable | | 175 |
| *Refund received from the tax authorities in respect of overpayment in X7* | | |
| Current tax payable | 5 950 | |
| Bank | | 5 950 |
| *Total of the first and second provisional payments made in 20X8 (these two payments would normally be processed as two separate entries on the dates on which the payments were actually made)* | | |
| Income tax expense (Statement of comprehensive income) | 5 845 | |
| Current tax payable (Statement of financial position) | | 5 845 |
| *Estimated income tax expense for the year* | | |

### Ledger accounts

**Bank**

| | | | |
|---|---|---|---|
| Current tax payable | 175 | Current tax payable | 5 950 |

**Current tax payable/ receivable**

| | | | |
|---|---|---|---|
| Overprovision in 20X7 | 495 | Balance (1/1/20X8) | 320 |
| Bank | 5 950 | Tax | 5 845 |
| | | Bank | 175 |
| | | Balance | 105 |
| | 6 445 | | 6 445 |
| Balance | 105 | | |

**Income tax expense**

| | | | |
|---|---|---|---|
| Current tax payable (CT for CY) | 5 845 | Current tax payable (overprovision) | 495 |
| | | Profit and loss | 5 350 |
| | 5 845 | | 5 845 |

### Financial statements

**WAK LIMITED**
**EXTRACT FROM STATEMENT OF FINANCIAL POSITION**
**AS AT 28 FEBRUARY 20X8**

| | 20X8 | 20X7 |
|---|---|---|
| **Current liabilities** | **C** | **C** |
| Current tax payable | - | 320 |
| **Current assets** | | |
| Current tax receivable | 105 | - |

## Solution 5.4 continued….

**WAK LIMITED**
**EXTRACT FROM STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 28 FEBRUARY 20X8**

| | 20X8 C | 20X7 C |
|---|---|---|
| Profit before tax | 16 700 | 15 200 |
| Income tax expense | (5 350) | (5 720) |
| Profit for the period | 11 350 | 9 480 |
| *Other comprehensive income* | - | - |
| Total comprehensive income | 9 480 | 7 800 |

**WAK LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 28 FEBRUARY 20X8 (EXTRACTS)**

| **3. Taxation** | 20X8 C | 20X7 C |
|---|---|---|
| Normal tax | | |
| Current tax | 5 350 | 5 720 |
| - Current year | 5 845 | 5 320 |
| - Under/ (over) provision – previous year | (495) | 400 |
| Deferred | - | - |
| Income tax expense | 5 350 | 5 720 |
| *Tax rate reconciliation* | | |
| Applicable tax rate | 35% | 35% |
| Tax effects of profit before tax | 5 845 | 5 320 |
| Under/ (over) provision – prior year | (495) | 400 |
| Income tax expense | 5 350 | 5 720 |
| Effective tax rate | 32.0% | 37.6% |

The effective tax rate is higher than the applicable tax rate due to:

- the over-provision of tax in the prior year.

**Authors' note:**
Notice that the effective rate is reduced below the applicable rate of tax of 35% in 20X8 (due to the over-provision of the 20X7 tax expense, which is adjusted in 20X8) whereas the effective rate is greater than the applicable rate of tax in 20X7 (due to the 20X6 under-provision of the tax expense, which is adjusted in 20X7).

## Solution 5.5

### a) Tax expense note

**BIG BLUE LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 20X3**

| | | 20X3 | 20X2 |
|---|---|---|---|
| **5 Taxation** | | **C** | **C** |
| Normal tax | | | |
| Current tax | 20X2: 87 000 – 0<br>20X3: 84 750 – 1 100 | 83 650 | 87 000 |
| - current year | 20X2: balancing (87 000 + - 0); W1<br>20X3: balancing (83 650 + 1 100) W1 | 84 750 | 87 000 |
| - prior year under/ (over) provision | 20X2: first year of operations<br>20X3: 87 000 – 85 900 | (1 100) | - |
| Deferred | | - | - |
| Income tax expense | given | 83 650 | 87 000 |
| *Tax rate reconciliation:* | | | |
| Applicable tax rate | | 30% | 30% |
| Tax effects of: | | | |
| Profit before tax | 20X2: 290 000 x 30%;<br>20X3: 300 000 x 30% | 90 000 | 87 000 |
| Exempt capital profit | 20X3: 13 000 x 30% | (3 900) | |
| Exempt dividend income | 20X3: 5 000 x 30% | (1 500) | |
| Non-deductible fine | 20X3: 500 x 30% | 150 | |
| Prior year over-provision of current tax | per above | (1 100) | |
| Income tax expense | given | 83 650 | 87 000 |
| Effective tax rate | 20X3: 83 650 / 300 000<br>20X2: 87 000 / 290 000 | 27.88% | 30% |

The effective tax rate is lower than the applicable tax rate due to:

- Exempt capital profit and dividends earned
- the over-provision of tax in the prior year.

## Solution 5.5 continued . . .

### b) Statement of financial position

**BIG BLUE LIMITED**
**STATEMENT OF FINANCIAL POSITION**
**AT 31 DECEMER 20X3**

| | | 20X3 | 20X2 |
|---|---|---|---|
| **Current liabilities** | | **C** | **C** |
| Current tax payable: normal tax | 20X3: 5 000 (o/b) + 83 650 (CT) - 80 000 (pmts) | 8 650 | 5 000 |

| **W 1 current normal tax** | **20X3** | **20X2** |
|---|---|---|
| Profit before tax | 300 000 | 290 000 |
| Less capital profit | (13 000) | |
| Less dividend received | (5 000) | |
| Add fine | 500 | |
| Taxable income | 282 500 | 290 000 |
| | | |
| Current normal tax @30% | 84 750 | 87 000 |

## Solution 5.6

### a) Calculations

### 1. Calculation of capital gain on sale of building

| | |
|---|---|
| *Proceeds:* | |
| Carrying amount on date of sale (given) | 280 000 |
| Profit on sale (given) | 100 000 |
| | 380 000 |
| *Taxable Capital Profit* | |
| *Sales proceeds* | 380 000 |
| *Sales proceeds for tax pupose* | 300 000 |
| *Less: Tax base* | (280 000) |
| *Taxable profit* | 20 000 |

### 2. Calculating the taxable profits and current tax

| | |
|---|---|
| Profit before tax (given) | 500 000 |
| Less exempt income: | |
| Dividend income | (10 000) |
| Accounting capital profits | (100 000) |
| Taxable capital gain | 20 000 |
| Add non-deductible expenses: | |
| Donations | 50 000 |
| Fines | 30 000 |
| Taxable profit | 490 000 |
| | |
| Current tax (C490 000 x 30%) | 147 000 |
| Add: Tax on dividend income @ 10% (10 000*10%) | 1 000 |
| | 148 000 |

### b) Disclosure

**ZAC LTD**
**EXTRACT FROM STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31ST DECEMBER 20X2**

| | Note | 20X2 C |
|---|---|---|
| Profit before tax | | 500 000 |
| Income tax expense | 4 | (148 000) |
| Profit for the period | | 352 000 |
| *Other comprehensive income* | | - |
| Total comprehensive income | | 352 000 |

## Solution 5.6 continued….

**ZAC LTD**
**EXTRACTS FROM NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 20X2**

### 4. Taxation

| | 20X2<br>C |
|---|---|
| Normal tax | 148 000 |
| Current tax | 148 000 |
| Deferred tax(no temporary differences) | - |
| Income tax expense | 159 000 |
| *Tax rate reconciliation:* | |
| Applicable tax rate | 30% |
| Tax effects of | |
| Profits before tax (C500 000 x 30%) | 150 000 |
| Exempt capital profit (C80 000 x 30%) | (24 000) |
| Exempt dividend income (C10 000 x 20%) | (2 000) |
| Non-deductible donations (C50 000 x 30%) | 15 000 |
| Non-deductible fines (C30 000 x 30%) | 9 000 |
| Income tax expense | 148 000 |
| Effective tax rate (148 000/ 500 000) | 29.6% |

The effective tax rate is higher than the applicable tax rate due to:

- Exempt capital profit and dividends earned taxed at lower rate

**Workings**

| | CA | TB |
|---|---|---|
| Selling price | 380 000 | 380 000 |
| Carrying amount | 280 000 | 280 000 |
| Profit | 100 000 | 100 000 |
| Capital profit / Capital gain (X 50% = 40 000) | 80 000 | 80 000 |
| Non-capital profit / Recoupment | 20 000 | 20 000 |

## Solution 5.7

### a) Calculations

### 1. Calculating the taxable profits and current tax

| | |
|---|---|
| Profit before tax (given) | 250 000 |
| Less Dividend income | (12 000) |
| Add Donations (permanent difference) | 8 000 |
| | 246 000 |
| Temporary Differences | 29 000 |
| Add income received in advance (closing balance) | 24 000 |
| Less prepaid expense (closing balance) | (10 000) |
| Add back depreciation | 40 000 |
| Less capital allowance | (25 000) |
| Taxable income | 275 000 |
| Tax at 30% (275 000 x 30%) | 82 500 |
| Tax on dividend income (12 000 * 10%) | 1 200 |
| Current tax | 83 700 |

For the purpose of this exercise, deferred taxation was not required. The deferred taxation figure may, however, be calculated by, multiplying the temporary differences into tax rate

| | | **X 0.30** |
|---|---|---|
| Temporary Differences (see above) | 29 000 | 8 700 |

The journal entries for the processing of the current and deferred taxation would be as follows:

| | **Debit** | **Credit** |
|---|---|---|
| Taxation expense | 83 700 | |
| Current tax payable (liability) | | 83 700 |
| *Processing of the current taxation expense* | | |
| Deferred taxation (asset) | 8 700 | |
| Taxation expense | | 8 700 |
| *Journalising the deferred taxation expense* | | |

## Solution 5.7 continued …

### b) Disclosure

**WAC LTD**
**EXTRACTS FROM STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 20X1 (EXTRACTS)**

| | Note | 20X1 C |
|---|---|---|
| Profit before tax | | 250 000 |
| Income tax expense | 4 | 75 000 |
| Profit for the period | | 175 000 |
| *Other comprehensive income* | | - |
| Total comprehensive income | | 175 000 |

**WAC LTD**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 20X1**

**4. Taxation**

| | 20X1 C |
|---|---|
| Normal tax | 75 000 |
| Current | 83 700 |
| Deferred (not required) | (8 700) |
| | 75 000 |

*Tax rate reconciliation:*

| | C | % |
|---|---|---|
| Tax effects of: | | |
| Profits before tax / Applicable tax rate (250 000 x 30%) | 75 000 | 30 |
| Dividend income taxed at lower rate (C12 000 x 20%) | (2 400) | (0.9) |
| Non-deductible donations (C8 000 x 30%) | 2 400 | 0.9 |
| Income tax expense / Effective tax rate | 75 000 | 30 |

## Solution 5.8

### a) Journals

| | Debit | Credit |
|---|---|---|
| 1. | | |
| Inventories | 200 000 | |
| Bank/ creditors | | 200 000 |
| *Purchase of inventories for C200 000 (no VAT included)* | | |
| 2. | | |
| Inventories | 28 947 | |
| Current tax payable: VAT | 4 053 | |
| Bank/ Creditors | | 33 000 |
| *Purchase of inventories for C33 000 (including VAT: C33 000 x 14/114)* | | |
| 3a. | | |
| Bank/ debtors | 800 | |
| Sales | | 702 |
| Current tax payable: VAT | | 98 |
| *Sale of goods (including VAT of C800 x 14/114)* | | |
| 3b. | | |
| Cost of Sales | xxx | |
| Inventories | | xxx |
| *Insufficient information* | | |
| 4a. | | |
| Bank/ debtors | 12 000 | |
| Sales | | 10 526 |
| Current tax payable: VAT | | 1 474 |
| *Sale of goods (including VAT of C12000 x 14/114)* | | |
| 4b. | | |
| Cost of Sales | xxx | |
| Inventories | | xxx |
| *Insufficient information* | | |
| 5. | | |
| Electricity and water | 368 | |
| Current tax payable: VAT | 52 | |
| Bank | | 420 |
| *Payment of electricity and water (including VAT of C420 x 14/114)* | | |
| 6. | | |
| Telephone | 167 | |
| Current tax payable: VAT | 23 | |
| Bank | | 190 |
| *Payment of telephone (including VAT of C190 x 14/114)* | | |
| 7. | | |
| Salaries | 28 000 | |
| Current tax payable: employees tax | | 8 000 |
| Bank | | 20 000 |
| *Paid net salaries of C20 000 and owe C8 000 to the tax authorities* | | |

## Solution 5.8 continued ….

| | Debit | Credit |
|---|---|---|
| 8. | | |
| Current tax payable: employees tax | 11 000 | |
| Bank | | 11 000 |
| *Paid employees' tax to the tax authorities* | | |
| 9. | | |
| Bank | 5 000 | |
| Current tax payable: VAT | | 5 000 |
| *Receipt of VAT refund from the tax authorities* | | |
| 10. | | |
| Bank/ income receivable | 12 000 | |
| Dividend income | | 12 000 |
| *Dividend income earned* | | |
| 11a. | | |
| Retained earnings | 18 000 | |
| Shareholders for dividends | | 18 000 |
| *Dividends declared* | | |
| 11b. | | |
| Shareholders for dividends | 18 000 | |
| Bank | | 16 200 |
| Withholding tax payable | | 1 800 |

**b)**

**BG LIMITED**
**EXTRACT FROM STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE MONTH ENDED 31 MARCH 20X9**

| | | **20X9** |
|---|---|---|
| | | **C** |
| Sales | (702+10 526) | 11 228 |
| Cost of sales | | xxx |
| Electricity and water | | 368 |
| Telephone | | 167 |
| Other Income | | 12 000 |
| Salaries | | 28 000- |
| Profit before tax | | xxx |
| Income tax expense | | xxx |
| Profit for the period | | xxx |
| *Other comprehensive income* | | xxx |
| Total comprehensive income | | xxx |

## Solution 5.8 continued …

**BG LIMITED**
**EXTRACT FROM STATEMENT OF FINANCIAL POSITION**
**AS AT 31 MARCH 20X9**

| | 20X9 C |
|---|---|
| ***ASSETS*** | |
| **Non-current assets** | |
| Vehicles (O/balance + 5 000 + 120 000) | xxx |
| **Current assets** | |
| Inventories [O/balance + 200 000 + 28 947 – cos (A) – cos (B)] | xxx |
| Trade debtors and other receivables | xxx |
| Bank | xxx |
| | |
| ***EQUITY AND LIABILITIES*** | |
| **Non-current liabilities** | |
| XYZ Bank (X + 5 000 + 120 000) | xxx |
| **Current liabilities** | |
| Trade and other payables | xxx |
| Current tax payable: VAT (2000+4053-98-1474+52+23-5000) | 444 |
| Current tax payable: (6 000 + 8 000 – 11 000) + 1 800 | 4 800 |
| Current tax payable: Secondary tax on companies | 750 |

**BG LIMITED**
**EXTRACT FROM STATEMENT OF CHANGES IN EQUITY**
**FOR THE MONTH ENDED 31 MARCH 20X9**

| | Retained earnings C | Total C |
|---|---|---|
| Opening balance: 1/3/20X8 | xxx | xxx |
| Total comprehensive income | xxx | xxx |
| Dividends paid | (18 000) | (18 000) |
| Closing balance: 31/3/20X9 | xxx | xxx |

## Solution 5.9

### a) Statement of comprehensive income

**PEACH LIMITED**
**EXTRACT FROM THE STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 MAY 20X6**

| | | Note | C |
|---|---|---|---|
| Gross profit | (Balancing: 115 000 + 2 000 + 40 000 – 8 000) | | ***149 000*** |
| Other income | | | |
| Dividends received | | | 8 000 |
| Other expenses | | | (40 000) |
| Finance costs | | | (2 000) |
| Profit before taxation | | | 115 000 |
| Income tax expense | (37 450 + 1 500 +2 125) | 12 | (39 750) |
| Profit for the period | | | 75 250 |
| *Other comprehensive income* | | | - |
| Total comprehensive income | | | 75 250 |

### b) Statement of financial position

**PEACH LIMITED**
**EXTRACTS FROM THE STATEMENT OF FINANCIAL POSITION**
**AS AT 31 MAY 20X6**

| ***ASSETS*** | | ***C*** |
|---|---|---|
| **Current assets** | | |
| Current tax receivable | (43 000 – 37 450 – 800 – 1 500) | 3 250 |
| ***EQUITY AND LIABILITIES*** | | |
| **Current liabilities** | | |
| Shareholders for dividends | | 10 000 |

### c) Taxation note

**PEACH LIMITED**
**EXTRACT FROM THE NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 MAY 20X6**

| **12. Taxation** | | | **C** |
|---|---|---|---|
| Normal tax | | | |
| Current tax | (calculation 1) | | 38 250 |
| Under provision prior years | (given) | | 1 500 |
| Income tax expense | | | 39 750 |
| *Tax rate reconciliation* | | ***%*** | |
| Tax expense on profit before tax/ applicable rate | | 35.00 | 40 250 |
| Exempt dividend | (8 000 x 25%/115 000) | (1.74) | (2 000) |
| Under provision | (1 500 / 115 000) | 1.30 | 1 500 |
| Income tax expense as reported / effective rate | (39 750 / 115 000) | 34.56 | 39 750 |

## Solution 5.9

**Workings:**

| **W1. Tax computation** | | **X 0.35** | |
|---|---|---|---|
| Profit before taxation | 115 000 | | |
| Less: Dividend income to be taxed @ 10% | (8 000) | | |
| | 107 000 | 37 450 | Dr TE |
| Dividend income taxed @ 10% | 10 000 | 800 | |
| Taxable profit | 127 000 | 38 250 | Cr CTP |

## Solution 5.10

**(a)**

**CARIBBEAN LIMITED**
**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 28 FEBRUARY20X7**

| | | Notes | 20X7 C |
|---|---|---|---|
| Revenue | | | 12 000 000 |
| Cost of sales | (7 100 000 + 80 000) | | (7 180 000) |
| Operating expenses | (3 480 000 + 150 000) | | (3 630 000) |
| Other income | | | 150 000 |
| Finance costs | | | (240 000) |
| Profit before tax | | 4 | 1 100 000 |
| Income tax expense | | 5 | (319 000) |
| Profit for the period | | | 781 000 |
| *Other comprehensive income* | | | |
| Revaluation surplus | | | 800 000 |
| Total comprehensive income | | | 1 581 000 |

**(b)**

**CARIBBEAN LIMITED**
**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 28 FEBRUARY 20X7**

| | Ordinary share capital C | Share premium C | NDR C | Retained earnings C | Total C |
|---|---|---|---|---|---|
| Balance at 01/03/X6 | 2 500 000 | - | - | 1 424 200 | 3 924 200 |
| Total comprehensive income | | | 800 000 | 781 000 | 1 581 000 |
| Issue of share capital | 500 000 | 1 500 000 | | | 2 000 000 |
| Share issue expenses | | (150 000) | | | (150 000) |
| Balance at 28/02/X7 | 3 000 000 | 1 350 000 | 800 000 | 2 205 200 | 7 355 200 |

**(c)**

**CARIBBEAN LIMITED**
**EXTRACTS FROM STATEMENT OF FINANCIAL POSITION**
**AS AT 28 FEBRUARY 20X7**

| | | Note | C |
|---|---|---|---|
| ***ASSETS*** | | | |
| **Current assets** | | | |
| Inventories | | | 1 720 000 |
| Trade and other receivables | (980 000 + 15 000) | | 925 000 |
| Cash and cash equivalents | | | 2 059 200 |
| | | | 4 779 200 |

***EQUITY AND LIABILITIES***

| | | |
|---|---|---|
| **Current liabilities** | | |
| Borrowings | | 2 000 000 |
| Trade and other payables | (400 000 + 20 000) | 420 000 |
| Current tax payable | (319 000 – 200 000) | 119 000 |
| | | 2 539 000 |

**(d)**

**CARIBBEAN LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 28 FEBRUARY 20X7**

**1. Statement of compliance**

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 198, provisions of and directives issued by under the Companies Ordinance, 1984. In case the requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

**2. Accounting policies**

**2.1 Basis of preparation**

The financial statements have been prepared in the historical cost basis except for the revaluation of certain non-current assets. These policies are consistent in all material respects with these applied in the previous years.

**3 Share capital**

| | |
|---|---|
| **Authorised** | |
| 10 000 000 ordinary shares of C0.50 each | |
| | **C** |
| **Issued** | |
| 6 000 000 ordinary shares of C0.50 each | |
| **Reconciliation of quantity of shares** | 3 000 000 |
| Balance 1/3/X6 | |
| Issued during year | **Qty** |
| Balance 28/2/X7 | 5 000 000 |
| | 1 000 000 |
| | 6 000 000 |

**4. Profit before tax**

The profit before tax has been computed after taking into account the following:

| | | |
|---|---|---|
| Auditors remuneration | | 110 000 |
| Depreciation of property, plant and equipment | | 210 000 |
| Employee benefits expense | | 1 800 000 |
| Write down of inventory to net realisable value | (1 800 000 - 1 720 000) | 80 000 |
| Profit on sale of plant | | 150 000 |

**5. Income tax expense**

| | | |
|---|---|---|
| Current normal tax | | 319 000 |
| Income tax expense | | 319 000 |
| *Tax rate reconciliation* | | |
| Applicable tax rate | | 29% |
| Tax effects of | | |
| Profit before tax | (1 100 000 X 0.29) | 319 000 |

| | |
|---|---|
| Income tax expense | 319 000 |
| Effective tax rate | 29% |

**6.** Dividends of C300 000 have been declared on 25 March 20X7 but have not been recognised as a distribution. The DPS amounts to C0.05 per share.

## Solution 5.10 continued …

### Workings

**W1. Calculation of accounting / tax profit on sale of plant**

| | Accounting | Tax |
|---|---|---|
| Selling price | 330 000 | 330 000 |
| Carrying amount / tax base | (180 000) | (180 000) |
| Gain on sale of asset | 150 000 | 150 000 |

**W2. Current tax computation**

| | | |
|---|---|---|
| Profit before tax | | 1 100 000 |
| Accounting gain on sale of asset | | (150 000) |
| Taxable gain on sale of asset | | 150 000 |
| Taxable profit | | 1 100 000 |
| Current tax payable | (1 100 000 X 0.29) | **319 000** |

## Solution 5.11

| **W 1.Calculation of current normal tax** | | **Year 1** | **Year 2** | **Year 3** |
|---|---|---|---|---|
| | | **C** | **C** | **C** |
| Profit before tax | | 300 000 | 400 000 | 450 000 |
| • Add donations | | 40 000 | 0 | 0 |
| • Less capital profit on sale of vehicle | *Given* | (50 000) | 0 | 0 |
| • Add taxable capital gain on sale of vehicle | | 15 000 | 0 | 0 |
| • Less capital profit on sale of machine | *[80-(70-15-15)]* | | | (40 000) |
| • Add taxable capital gain on sale of machine | *[80-(70-25-25)]* | | | 60 000 |
| | | 305 000 | 400 000 | 470 000 |
| • Add income received in advance: c/bal | | 20 000 | 10 000 | 40 000 |
| • Less income received in advance: o/bal | | 0 | (20 000) | (10 000) |
| • Less expenses prepaid: c/bal | | (30 000) | (40 000) | (20 000) |
| • Add expenses prepaid: o/bal | | 0 | 30 000 | 40 000 |
| • Add depreciation | | 0 | 15 000 | 15 000 |
| • Less tax depreciation | | 0 | (25 000) | (25 000) |
| Taxable profit | | 295 000 | 370 000 | 510 000 |
| Current normal tax at 30% | | 88 500 | 111 000 | 153 000 |

| **W2 Calculation of over/ under estimates of current normal tax** | **Year 1** | **Year 2** | **Year 3** |
|---|---|---|---|
| | **C** | **C** | **C** |
| Current normal tax estimated (see working 1) | 88 500 | 111 000 | 153 000 |
| Current normal tax assessed (given) | 94 000 | 114 500 | not yet assessed |
| (Over)-estimated/ under-estimated | 5 500 | 3 500 | unknown |
| Assessment received in year 2 so journalised in: | Year 2 | | |
| Assessment received in year 3 so journalised in: | | Year 3 | |

| **W3 Calculation of whether a payment with return or refund is due** | | **Year 1** | **Year 2** | **Year 3** |
|---|---|---|---|---|
| | | **C** | **C** | **C** |
| *Extracts from the current tax payable account* | | | | |
| Current normal tax charge (working 1) | (Credit) | (88 500) | (111 000) | (153 000) |
| Less provisional payments made (given) | Debit | 60 000 | 70 000 | 100 000 |
| (Under)/ over-estimate of current normal tax | Debit/ (Credit) | 0 | (5 500) | (3 500) |
| Balance owing: payment with return or (refund) | | (28 500) | (46 500) | (56 500) |
| Payments with returns or refunds paid in: | | year 2 | year 3 | year 4 |

## Solution 5.11 continued …

| Journals | Debit | Credit |
|---|---|---|
| *Year 1* | | |
| Current tax payable: normal tax | 60 000 | |
| Bank | | 60 000 |
| Provisional tax payments (this is the total of the 2 provisional payments - these would normally each be journalised separately) | | |
| Tax expense | 88 500 | |
| Current tax payable: normal tax | | 88 500 |
| Current normal tax estimated for year 1 (see working 1) | | |
| *Year 2* | | |
| Current tax payable: normal tax | 70 000 | |
| Bank | | 70 000 |
| Provisional tax payments (this is the total of the 2 provisional payments - these would normally each be journalised separately) | | |
| Tax expense | 111 000 | |
| Current tax payable: normal tax | | 111 000 |
| Current normal tax estimated for year 2 (see working 1) | | |
| Tax expense | 5 500 | |
| Current tax payable: normal tax | | 5 500 |
| Current normal tax under-estimated in year 1 (see working 2) | | |
| Current tax payable: normal tax | 28 500 | |
| Bank | | 28 500 |
| Payment with return made in respect of year 1 (see working 3) | | |
| *Year 3* | | |
| Current tax payable: normal tax | 100 000 | |
| Bank | | 100 000 |
| Provisional tax payments (this is the total of the 2 provisional payments - these would normally each be journalised separately) | | |
| Tax expense | 153 000 | |
| Current tax payable: normal tax | | 153 000 |
| Current normal tax estimated for year 3 (see working 1) | | |
| Tax expense | 3 500 | |
| Current tax payable: normal tax | | 3 500 |
| Current normal tax under-estimated in year 2 (see working 2) | | |
| Current tax payable: normal tax | 46 500 | |
| Bank | | 46 500 |
| Payment with return made in respect of year 2 (see working 3) | | |

## Solution 5.12

### a) Current normal tax calculation

| **Current taxation (and deferred taxation adjustment)** | | **30%** | |
|---|---|---|---|
| Profit before tax | 885 000 | | |
| *Permanent differences:* | | | |
| Less dividend income (exempt income) | (60 000) | | |
| Add non deductible items fines | 1 000 | | |
| Add non deductible items VAT penalty | 6 000 | | |
| *Temporary differences:* | | | |
| Add depreciation- office equipment | 110 000 | | |
| Less Tax depreciation - office equipment | (80 000) | | |
| Add depreciation- machinery *(600 000 – 0) x 25%* | 150 000 | | |
| Less Tax depreciation- machinery *(600 000 x 20%)* | (120 000) | | |
| Less income received in advance: opening balance | (6 500) | | |
| Add income received in advance: closing balance | 7 500 | | |
| Add provision for leave pay | 50 000 | | |
| Add taxable gain on sale of machine *(W1.4)* | 60 000 | | |
| Less non capital profit *(W1.3)* | (150 000) | | |
| Add expense prepaid: opening balance | 3 000 | | |
| Less expenses prepaid: closing balance | (6 000) | | |
| Taxable profit and current normal tax | 850 000 | 255 000 | Dr TE Cr CTP |

**W1 Machinery**

**W1.1 Machine carrying amount**

| | |
|---|---|
| Cost: 1/1/20X6 | 600 000 |
| Accumulated depreciation *(600 000 – 0) x 25% x 3* | (450 000) |
| Carrying amount: 31/12/20X8 | 150 000 |

**W1.2 Machine tax base**

| | |
|---|---|
| Cost: 1/1/20X6 | 600 000 |
| Accumulated tax depreciation *(600 000 x 20% x 3)* | (360 000) |
| Tax base: 31/12/20X8 | 240 000 |

**W1.3 Machine proceeds on sale**

| | |
|---|---|
| Profit on sale *(Given: all non-capital because the proceeds did not exceed cost price)* | 150 000 |
| Carrying amount *(W1.1)* | 150 000 |
| Proceeds | 300 000 |

**W1.4 Taxable gain on sale of machine**

| | |
|---|---|
| Proceeds *(W1.3: 300 000)* | 300 000 |
| Less tax base *(W1.2)* | (240 000) |
| Taxable gain on sale of machine | 60 000 |

## Solution 5.12 continued …

### b) Journal entries

| | Debit | Credit |
|---|---|---|
| Taxation expense: normal tax | 255 000 | |
| Current tax payable: normal tax | | 255 000 |
| *Current tax for the year* | | |
| Current tax payable: normal tax | 200 000 | |
| Bank | | 200 000 |
| *Payments made to the tax authorities during the year* | | |
| Current tax payable: normal tax | 20 000 | |
| Tax expense: normal tax | | 20 000 |
| *Over provision of normal tax in 20X7* | | |
| Income received in advance (L) | 6 500 | |
| Rent income | | 6 500 |
| *Reversal of opening balance to income* | | |
| Rent income | 7 500 | |
| Income received in advance (L) | | 7 500 |
| *Portion of rent received in advance (for 20X9)* | | |
| Insurance expense | 3 000 | |
| Prepaid expense (A) | | 3 000 |
| *Reversal of opening prepaid insurance* | | |
| Prepaid expense (A) W1 | 6 000 | |
| Insurance expense | | 6 000 |
| *Amount of insurance prepaid (for 20X9)* | | |
| Leave pay expense | 50 000 | |
| Provision for leave pay (L) | | 50 000 |
| *Leave paid to staff at 31 December 20X8* | | |

## Solution 5.13

a) Current normal tax calculation

| **Current taxation (and deferred taxation adjustment)** | | **30%** | |
|---|---|---|---|
| Profit before tax | 535 000 | | |
| *Permanent differences:* | | | |
| Add non deductible items: Donation | 30000 | | |
| *Temporary differences:* | | | |
| Add depreciation – plant and machinery (given) | 190 000 | | |
| Add impairment – machinery (given) | 20 000 | | |
| Less tax depreciation (given) | (170 000) | | |
| Less income received in advance- O/B (given) | (8900) | | |
| Add income received in advance: C/B (given) | 5500 | | |
| Less expense prepaid C/B (given) | (17 000) | | |
| Add expense prepaid O/B (given) | 18000 | | |
| Add: Accrued expenses – opening balance | 4 000 | | |
| Less: Accrued expenses – closing balance | (11 000) | | |
| Less: Tax loss on sale of plant (W1) | (170 000) | | |
| Less: Accounting gain on sale of plant (W1) | (30 000) | | |
| Less: Accounting gain on sale of machine (W2) | (120 000) | | |
| Add: Tax gain on sale of machine (W2) | 110 000 | | |
| Taxable profit and current normal tax | 385 600 | 115 680 | Dr TE Cr CTP |

**W1 Plant**

| | | |
|---|---|---|
| **Plant: carrying amount** | | |
| Proceeds | *Given* | 230 000 |
| Profit on sale of plant | *All non-current profit because SP less than CP* | (30 000) |
| Carrying amount | | 200 000 |
| **Tax gain / loss on plant** | | |
| Proceeds limited to cost | *Given: 230 000, cost is 800 000 so not limited* | 230 000 |
| Less tax base | *800 000- 400 000* | (400 000) |
| Tax Loss | | 170 000 |

**W2 Machinery**

| | |
|---|---|
| **Accounting gain / loss** | |
| Accounting profit | 120 000 |
| Carrying amount | 80 000 |
| Sales proceeds | 200 000 |
| **Tax gain / loss** | |
| Sales proceeds (from above) | 200 000 |
| Less: tax base | (90 000) |
| Taxable gain | 110 000 |

## Solution 5.13

### b) Journal entries

| | Debit | Credit |
|---|---|---|
| **1 September 20X5** | | |
| Current tax payable: normal tax | 11 350 | |
| Bank | | 11 350 |
| *Payment of outstanding balance* | | |
| **31 December 20X5** | | |
| Current tax payable: normal tax | 90 000 | |
| Bank | | 90 000 |
| *Payment of first provisional payment (600 000x0,3 ÷2)* | | |
| **30 June 20X6** | | |
| Current tax payable: normal tax | 31 500 | |
| Bank | | 31 500 |
| *Payment of second provisional payment (405 000x0,3 – 90 000)* | | |
| Tax expense | 99 780 | |
| Current tax payable: normal tax | | 99 780 |
| *Recording of current year tax expense* | | |